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IN THE

Supreme Court of the United States

OCTOBER TERM, 1940.

No. 669.

PEERLESS EQUIPMENT COMPANY, *Petitioner*,

v.

W. H. MINER, INC., *Respondent*.

On Writ of Certiorari to the United States Circuit Court of Appeals for the Seventh Circuit.

PETITION OF PEERLESS EQUIPMENT COMPANY FOR WRIT OF CERTIORARI TO THE CIRCUIT COURT OF APPEALS FOR THE SEVENTH CIRCUIT AND BRIEF IN SUPPORT THEREOF.

D. P. WOLHAUPTER,
Attorney for Petitioner.

F. ALLAN MINNE,
FRANKLIN M. WARDEN,
EMORY L. GROFF,
Counsel for Petitioner.

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PETITION OF PEERLESS EQUIPMENT COMPANY FOR WRIT OF CERTIORARI TO THE CIRCUIT COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

To the Honorable the Chief Justice and Associate Justices of the Supreme Court of the United States:

Your petitioner, Peerless Equipment Company, respectfully prays for a writ of certiorari to the Circuit Court of Appeals for the Seventh Circuit to review a judgment of that Court entered October 31, 1940.

JURISDICTION.

The grounds of jurisdiction are:

1. The Circuit Court of Appeals for the Seventh Circuit rendered its opinion October 31, 1940; a petition for rehearing was filed within the time allowed by that Court, to-wit, on November 14, 1940, and was denied November 27, 1940.

2. This is a suit in equity under the patent statutes to determine the issues of validity and infringement of Letters Patent No. 1,730,214, issued by virtue of Section 4886-RS and the amount of the recovery to which plaintiff is entitled by reason of the infringement thereof. The statute under which jurisdiction is invoked is 240-A of the Judicial Code, 28 U. S. C., Sec. 347, as amended by the Act of February 13, 1925.

A certified Transcript of the Record in the case, with the necessary additional copies thereof, have been filed in compliance with the provisions of Rule 38 of this Court.

SUMMARY AND SHORT STATEMENT OF THE MATTER INVOLVED.

1. The question of law here presented, arising in a patent infringement suit, relates to the impropriety of the Court of Appeals in awarding to respondent *ALL* of petitioner's profits realized from the sale of a device, old in its entirety except for the addition of a single manufacturing detail patented by respondent as an improvement.

Related Facts:

(a) The Master (Rec. P. 489) ruled: "The Defendant was not a wilful and wanton infringer". Petitioner therefore was innocent of any commingling of profits involving the alleged infringement.

(b) The Court of Appeals in its Opinion of October 31, 1940 (p. 22-23 Appendix) held:

"It is clear from the Record that not all shoes produced by Defendant prior to the entry of the Decree infringe."

(c) Respondent offered no evidence, and made no effort, to apportion profits attributable to the invention of the patent in suit.

(d) Petitioner voluntarily offered expert testimony under Section 70, Title 35, U. S. Code, approximately apportioning the number of Petitioner's devices that might have embodied the Respondent's invention.

2. The invention of the Johnson patent No. 1,730,214, in suit (see pages 140-145 in Physical Exhibit filed herewith of Case No. 6304) consists solely in providing a slight convexity upon the surface of the shoes or wedge of a friction draft gear for railroad cars. The draft gear is a rugged device employed to cushion blows incidental to the operation of a train, especially in the car coupling operations, and the invention of the Johnson patent has no reference to any change in the number of parts, nor in the relation of such parts, making up the draft gear to provide for this cushioning action. It is merely confined to the idea of this slight convexity on the wedging faces or surfaces of the shoes or of the wedge, of approximately the thickness of a stout sheet of paper. The purpose of this the patentee explains to be (P. 1, lines 51 to 57 of printed patent):

"a very simple expedient, which does not involve any increased expense in cost of manufacture by which adjustments of the parts, within the limits of variations necessitated by commercial manufacture, can be had to positively insure the proper contact of all the cooperating engaging sets of faces."

And, this detail feature is eliminated in the process of making and assembling the gear and is not one carried by the gear in use, (P. 4, printed copy of patent in suit, lines 12-16) to wit:

"This process of fitting of the parts to compensate for the permissible foundry variations can obviously be accomplished in the usual test of the gear before being shipped and applied to the car."

The height of the convexity is not specified in the Johnson patent, but the Circuit Court of Appeals said it could be determined by a mathematical formula (93 Fed. (2nd) at P. 104). In petitioner's gear, by the said formula, a convexity of ten one-thousandths of an inch is required to constitute an infringement (Rec. Pp. 191, 192). The patentee, Johnson, in his examination of the only specimen in evidence of petitioner's gear (Plaintiff's Exhibit No. 1) did not find this extent of convexity on any of the shoes of petitioner's gear (Rec. P. 392).

3. Draft gears without the patented improvement have been known for over thirty years. Speaking of the patented improvement, the Circuit Court of Appeals said:

"All other elements of Defendant's product were old." (Rec. P. 574)

4. On the Accounting, it was established that during the period of claimed infringement petitioner produced and sold a large number of gears that were identical in all respects with those held to be an infringement except that they did not have the claimed convexity. These gears were sold unknowingly with those having a convexity, to the same customers and for the same price. As to this the Circuit Court of Appeals said:

"It is clear from the record that not all shoes produced by defendant prior to the entry of the decree infringed, and we have held the defendant liable because of its commingling a trust estate arising from infringement with other funds received from non-infringing devices, making it impossible to ascertain how much of the sales profit was trust funds." (R. 572)

5. After entry of the decree, following the trial of the issue of infringement, petitioner inspected all shoes of its gears to make sure that none would be sold that had a convexity of the magnitude (10/1000ths inch) required by the formula to constitute an infringement. At the time of entry of the decree petitioner had on hand a large number of shoes that had been produced prior thereto. In holding that there was no presumption that petitioner infringed after the decree merely because, as respondent contended, its gears were manufactured exactly as before, the Circuit Court of Appeals said:

> "But it does not follow that Defendant is in the same situation subsequent to July 19, 1937, for upon that date Defendant began inspection and after that, according to the testimony of Hansen and Hauskins, no infringing shoe was sold or shipped by Defendant. The Master saw the method of inspection demonstrated. He saw used the gauges employed; he observed the inspectors upon the witness stand and had the best opportunity of any of us to judge of their credibility under all the facts and circumstances appearing before him. * * * The record rather is convincing that upon the adjudication that it was infringing, Defendant took reasonable steps to keep records which it had not kept before and employed effective means to prevent use of the infringing element." (R. 572)

It was shown that the slight convexities appearing on the surface of petitioner's shoes was an incident of manufacforging (R. 185). The Master found that petitioner was not a wilful infringer (R. 489).

6. Petitioner sold and is now selling its gears to the same railroads who had purchased its gears, both with and without convexity, prior to the Decree (R. 169, 170). That fact establishes that the entire market value of petitioner's gear was not attributable to the presence therein of an infringing convexity.

7. Respondent made no attempt to apportion the profits earned by petitioner in its gear business during the so-called

infringing period as between profits attributable to the basic parts of the gear, which were old, and those that might be credited to the presence of an infringing convexity on some of those gears. Respondent made no attempt to show that an apportionment was impossible.

8. Petitioner showed by recognized experts in the industry that the presence or absence of the accused convexity on the shoes of petitioner's gears had no effect upon the operativeness of petitioner's gears (R. 150, 202).

9. The respondent made no proof of actual damages although it is in the gear business in competition with petitioner (Master's Report, R. 495, 496, 501).

THE QUESTIONS PRESENTED.

1. Where a patent is merely for an improvement that does not create the entire market value of an infringing device, is it not the law that the plaintiff seeking a recovery of the defendant's profits resulting from the sale of the device has the burden of making an apportionment of the profits attributable to the use of the patented thing?

2. Is the plaintiff, who makes no attempt at an apportionment in a case involving such a patent, entitled to recover all the defendant's profits when the defendant was not a wilful infringer and has not destroyed its books and records?

3. In a case involving such a patent, can the plaintiff, who makes no attempt at an apportionment, recover on the basis of defendant's entire profits?

4. In such a case, where the defendant affirmatively establishes that the use of the patented feature could not and did not contribute to the profits made in the infringing business, may the plaintiff, nevertheless, recover all of those profits?

5. In such a case where petitioner independently offered expert testimony under Section 70, Title 35 of the U. S.

Code that not more than 6-8/10ths per cent of the gears sold by Petitioner prior to July 19, 1937 could have a convexity of infringing proportions, should not such testimony be followed?

6. Respondent's patentee, Johnson, in his testimony before the Master on Accounting (Pp. 387-392 Rec.) established for the first time, with certainty, that the various shoes in Petitioner's device had varying degrees of convexity not in conformity with the degree of convexity upon which the Court of Appeals based its original Decision (93 Fed. (2d) at Page 104). Was the action of the Circuit Court of Appeals correct in not considering this evidence as contradictory of the formula and basis upon which its original Decision was based?

THE OPINIONS OF THE COURTS BELOW.

On the issue of apportionment of profits the Master found that he was bound by the decision of the Circuit Court of Appeals that the convexity of the Johnson patent in suit was essential to the desired results of the parties, and therefore that he must award to respondent all of the profits made by petitioner from its sales of draft gears during the accounting period (R. 500). The Master also found that he could not consider the evidence that petitioner had sold large numbers of non-infringing gears prior to July 19, 1937 (R. 477). He found that petitioner ceased infringement on July 19, 1937 (R. 479-480).

The District Court held that petitioner did not cease infringement until December of 1937 and awarded to respondent all of petitioner's profits on the sale of draft gears throughout 1936 and 1937 (R. 517, 518).

The Circuit Court of Appeals held that petitioner had ceased to infringe in July, 1937 so reversed the District Court as to the length of the infringing period (R. 572, 573). It found that many of petitioner's gears sold prior to July 19, 1937 were non-infringing (R. 572) but, because of the fact that defendant had kept no record that would show which of its gears were infringing and which non-infring-

ing, it must account for all gears sold prior to July 19, 1937 on the ground that the failure to make such records caused confusion (R. 570, 571). Petitioner offered evidence based on the law of possibilities applied to facts and figures elsewhere established by the record, that not to exceed 6.8 per cent of the gears sold prior to July 19, 1937 could have had a convexity of infringing proportions (R. 204-206).

Not only did the Circuit Court of Appeals hold that defendant must account for all gears sold prior to July 19, 1937, despite the fact that all such gears concededly did not infringe, but it held that Defendant must pay over to Respondent the entire amount of profit it made on the sale of all such gears, regardless of whether infringement did or did not exist (R. 574).

The Circuit Court of Appeals for the Seventh Circuit held that it would be impossible to apportion the profits and further held that Respondent did not have the burden of making an apportionment (R. 574). Respondent neither attempted an apportionment nor showed that it was impossible to make one. Your petitioner, however, did offer expert testimony to that end.

THE REASONS RELIED UPON FOR THE GRANT OF A WRIT OF CERTIORARI.

1. The United States Circuit Court of Appeals for the Seventh Circuit has decided an important question of law in a manner which is believed to be in direct conflict with applicable decisions of this Court in *Dowagiac* v. *Minnesota*, 235 U. S. 641; *Sheldon, et al.* v. *Metro-Goldwyn Pictures, et al.*, 309 U. S. 390; *Garretson* v. *Clark*, 111 U. S. 120; and *Black* v. *Thorn*, 111 U. S. 122; and other United States Circuit Courts of Appeals, particularly those for the Second and Sixth Circuits in *Metallic Rubber Co.* v. *Hartford Rubber Co.*, 275 Fed. 315 (C. C. A. 2) and *Egry Register Co.* v. *Standard Register Co.*, 23 Fed. (2d) 438 (C. C. A. 6).

2. The United States Circuit Court of Appeals for the Seventh Circuit has decided important questions of Federal

law, in a manner against public interest, and the effect of which is therefore of great public importance and interest.

3. The Court of Appeals erred in holding that where a patent is for an improvement and does not create the entire market value of an infringing device the patentee may, nevertheless, recover all of an infringer's profits.

4. The Court of Appeals erred in holding, in effect, that where all of the elements of an infringer's device are old, with the exception of one improved feature which is covered by the patent, the patentee is not required to make an apportionment of the infringer's profits.

5. The Court of Appeals erred in holding that an apportionment of profits need not be made when the patent is for an improvement that is an integral part of a device that is complete without the improvement.

6. The Court of Appeals erred in holding that a patentee may recover all of an alleged infringer's profits even though the saleability of the accused device was unaffected by whether or not it embodied the patented improvement.

7. The Court of Appeals erred in holding that an apportionment of profits need not be made when the patentee has failed to offer evidence to show that an apportionment is impossible, and when the record shows that the accused device was a complete, operative and saleable device without the patented improvement.

8. The Court of Appeals erred in holding that although all of the elements of the accused device, except for the patented improvement, were old and formed a complete saleable device, the patentee is entitled to recover the profits made on the old elements as well as on the new element, even though he makes no attempt at an apportionment.

9. The Court of Appeals erred in holding, in effect, that the burden is on an infringer to make an apportionment of profits where the patent is for an improvement constituting an integral part of an old, complete and saleable article.

10. The Court of Appeals erred, assuming infringement, in not holding that the Respondent, having failed to prove damages or profits attributable to the alleged use of Johnson's invention, or to have established a reasonable royalty, is only entitled to nominal damage, or, in the alternative, to not more than 6-8/10ths per cent of the profits made on Defendant's draft gears which were made and sold prior to the Decree, on the basis of the apportionment made by Petitioner's Expert, Prof. Endsley, offered under Section 70, Title 35 of the U. S. Code.

11. That the Court of Appeals erred in not accepting the evidence on the Accounting by the patentee, Johnson, establishing that none of the shoes in Plaintiff's Exhibit #1 of Defendant's gear had the infringing convexity.

PRAYER.

Wherefore your petitioner respectfully prays that a writ of certiorari be issued out of and under the seal of this Court to the United States Circuit Court of Appeals for the Seventh Judicial Circuit sitting at Chicago, Illinois, commanding said Court to certify and send to this Court on a day to be designated, a full transcript of the record and all proceedings of the Court of Appeals had in this case, to the end that this case may be reviewed and be determined by this Court; that the judgment of the Court of Appeals for the Seventh Circuit be reversed, and that petitioner be granted such other and further relief as may seem proper.

D. P. Wolhaupter,
Attorney for Petitioner.

F. Allan Minne,
Franklin M. Warden,
Emory L. Groff,
Counsel for Petitioner.

IN THE

Supreme Court of the United States

OCTOBER TERM, 1940.

No. ————.

PEERLESS EQUIPMENT COMPANY, *Petitioner,*

v.

W. H. MINER, INC., *Respondent.*

On Writ of Certiorari to the United States Circuit Court of Appeals for the Seventh Circuit.

BRIEF IN SUPPORT OF PETITION FOR CERTIORARI.

The opinion of the Circuit Court of Appeals for the Seventh Circuit is unreported but is reproduced as an appendix hereto and is to be found at page 568 of the record. The opinion of the District Court is unreported but is to be found at pages 517 and 518 of the record. The Master's report is to be found at pages 475 to 501 of the record.

The United States Circuit Court of Appeals for the Seventh Circuit has restricted the rule of this Court in *Gar-*

retson v. *Clark*, 111 U. S. 120; *Dowagiac* v. *Minnesota*, 235 U. S. 641; *Sheldon, et al.* v. *Metro-Goldwyn Pictures Corp., et al.*, 309 U. S. 390; *Egry Register Co.* v. *Standard Register Co.*, 23 Fed. (2d) 438; and *Metallic Rubber Co.* v. *Hartford Rubber Co.*, 275 Fed. 315.

If we assume for purposes of argument that because of confusion caused by failure to keep records, petitioner should account for all the gears which it sold prior to July, 1937, despite the fact that many of these gears did not infringe, the decision of the Circuit Court of Appeals is contrary to rules of law established by this Court by awarding all of petitioner's profits to respondent in face of the facts that the patent in suit is a mere improvement patent, and that the entire market value of petitioner's gears was not attributable to any use by petitioner of the said improvement.

The Circuit Court of Appeals for the Seventh Circuit says that petitioner's non-infringing gears do not have as much capacity as the gear that was held to be infringing, that is, one having a crown in excess of a few thousandths of an inch.

This is a conclusion of fact that is not supported by the evidence but, aside from that, if we were to concede, *arguendo*, that a gear without the infringing convexity is not so impressive, from an initial capacity standpoint, as one with the convexity, the fact still remains that the gear without the convexity has adequate capacity, it meets all official requirements and has sold and still sells at the same price, and higher, to the same customers who bought and used petitioner's gears with a convexity. These facts permit of no doubt that the basic, old parts of petitioner's gear, in and of themselves, created a substantial part, if not all, of the profits petitioner realized from the sale of gears. That part belongs to petitioner and not to respondent and it was wrong to award it to respondent. It was respondent's duty to prove what part, if any, of petitioner's entire profits, was attributable to petitioner's use of the

infringing convexity. That is all that respondent was entitled to recover.

Sheldon, et al. v. *Metro-Goldwyn Pictures, et al.*, 309 U. S. 390;
Dowagiac v. *Minnesota*, 235 U. S. 641; and
Black v. *Thorn*, 111 U. S. 122.

Respondent made no effort to prove what part of petitioner's profits belonged to respondent. It therefore failed to establish any right to a recovery of profits. That is the law clearly announced by this Court in *Garretson* v. *Clark*, 111 U. S. 120; *Dowagiac* v. *Minnesota*, 235 U. S. 641; and *Westinghouse* v. *Wagner*, 225 U. S. 604.

The Circuit Court of Appeals for the Seventh Circuit arbitrarily says that respondent could not have made an apportionment. Plaintiff made no showing that an apportionment was impossible. Under the decisions of this and other Courts, apportionment can be based upon expert testimony, but no expert testimony was offered by the plaintiff.

In *Dowagiac* v. *Minnesota*, 235 U. S. 641, this Court said:

> "In so far as the profits from the infringing sales were attributable to the patented improvements they belonged to the plaintiff, and in so far as they were due to other parts or features they belonged to the defendants. But as the drills were sold in completed and operative form, the profits resulting from the several parts were necessarily commingled. * * * It well may be that mathematical exactness was not possible, but, as is shown in Westinghouse Electric & Mfg. Co. v. Wagner Electric & Mfg. Co. supra (pp. 617, 620-622), that degree of accuracy is not required, but only reasonable approximation, which usually may be attained through the testimony of experts and persons informed by observation and experience. Testimony of this character is generally helpful and at times indispensable in the solution of such problems."

This Court recently held to the same effect in

Sheldon v. *Metro-Goldwyn Pictures Corp.*, 309 U. S. 390.

And the Court of Appeals for the Sixth Circuit has so ruled in

> *Egry Register Co.* v. *Standard Register Co.*, 23 Fed. (2d) 438, 441 (C. C. A. 6).

Respondent, however, did offer the testimony of an expert, Mr. Carlton Hill, as to what would be a reasonable royalty in this case. On cross-examination a hypothetical question, based on facts theretofore established by the record, was put and answered as follows:

> "Q. Well, I am consulting you now, Mr. Hill, and my proposition is I can make this gear that you have testified about without the convexity referred to in the patent and therefore it is not infringed, at the same price as I can make it with the convexity; I can sell it to the same people for the same amount of money. Would that have any effect upon the amount of royalty that you would recommend that I pay for a license under the Johnson patent?
>
> "A. Of course, if you could do that, I would not recommend that you pay any royalty at all. (R. pp. 33, 34.)"

That admission of respondent's expert, establishes as well as anything could, that the infringing convexity if present on some of petitioner's gears was not and could not be responsible for all of the profits petitioner made in its gear business.

Petitioner, in its own behalf, offered testimony to show that the invention contributed nothing to its profits. It called two experts for this purpose (R. 150, 202).

The record shows that since the decree was entered in July of 1937 railroads have continued to purchase defendant's draft gears not having any convexity; that defendant lost no customers because of the elimination of the convexity after the decree; and petitioner's selling price for non-accused gears, sold after the decree, actually increased (R. 170). Under such a state of facts this Court and the Circuit Court of Appeals for the Second and Sixth Circuits

have refused an award of profits to a plaintiff who was successful on the issues of validity and infringement.

Black v. *Thorne*, 111 U. S. 122;
Egry Register Co. v. *Standard Register Co.*, 23 Fed. (2d) 438, 441 (C. C. A. 6);
Metallic Rubber Co. v. *Hartford Rubber Works Co.*, 275 Fed. 315 (C. C. A. 2);
American Can Co. v. *Goldee Mfg. Co., Inc.*, 31 Fed. (2d) 492; affirmed C. C. A. 2, 31 Fed. (2d) 494.

The authority relied upon by the Circuit Court of Appeals in support of its award of all of petitioner's profits to the respondent is *Hurlbut* v. *Schillinger*, 130 U. S. 472, 32 L. Ed. 1016, 9 Sup. Ct. Rep. 584. That that case is not in point is seen by what this Court there said:

> "It clearly appears that the defendant's concrete flagging derived its entire value from the use of the plaintiff's invention, and that, if it had not been laid in that way, it would not have been laid at all."

That is a statement of what is referred to as the entire market value rule. That rule does not apply here because petitioner sold its gears without the accused convexity as successfully as it sold those with any convexity, both during and subsequent to the accounting period.

In the present case the Circuit Court of Appeals has said:

> "The inclusion of the convexity was not the addition of an attachment but was embraced in the manufacture and was an essential element of Johnson's successful invention." (R. 574)

We see no distinction in principle as between an improvement that is an attachment and one that is an integral addition. This Court has made no such distinction. In *Dowagiac* v. *Minnesota*, 235 U. S. 641, the patented parts of the grain drill were embraced in the drill and were essential parts of the machine. In *Sheldon, et al.* v. *Metro-Goldwyn Pictures, et al.*, 309 U. S. 390, the story was embraced in the motion picture and an essential part thereof.

As to its essentiality, the record clearly proves that the accused convexity did not create the market value of petitioner's gear. If an improvement does not create market value, it is not essential so far as the creation of profits is concerned.

The Circuit Court of Appeals for the Sixth Circuit in *Dowagiac* v. *Brennan*, 162 Fed. 472, held that the patentee there had made an essential invention, stating:

> "But we are of opinion that the circumstances of this case, first, in that in the patented combination no other invention inheres, and that the combinations are not for improvements merely, but substitutes for essential congeries in a drill, and, secondly, that the infringement has been so conducted as to render a distinction of profits impossible, are controlled by principles quite independent of those involved in Garretson v. Clark, and that the plaintiff was entitled to a decree for the profits of the sales of the infringing drills."

This Court, in *Dowagiac* v. *Minnesota*, 235 U. S. 641, considering the same patent in relation to the question of accounting for the profits made by a different infringer, said:

> "We think the evidence, although showing that the invention was meritorious and materially contributed to the value of the infringing drills as marketable machines, made it clear that their value was not entirely attributable to the invention, but was due in a substantial degree to the unpatented parts or features.
>
> " * * * It was essential, therefore, that they (the profits) be separated or apportioned between what was covered by the patent and what was not covered by it; for, as was said in Westinghouse Electric & Mfg. Co. v. Wagner Electric & Mfg. Co., supra (p. 615): 'In such case, if plaintiff's patent only created a part of the profits, he is only entitled to recover that part of the net gains.' In the nature of things the profits pertaining to the patented improvements had to be ascertained before they could be recovered by the plaintiff, and therefore it was required to take the initiative in presenting evidence looking to an apportionment. Referring to a like situation, it was said in the case just cited (p. 617): 'The burden of apportionment was then logi-

cally with the plaintiff, since it was only entitled to recover such part of the commingled profits as was attributable to the use of its invention.' "

In *Sheldon, et al.* v. *Metro-Goldwyn Pictures Corp., et al.*, 309 U. S. 390, this Court took pains to point out that the *Dowagiac case* had received careful consideration and that justice requires an apportionment where the plaintiff's invention has not created all of the profits.

The decision of the Circuit Court of Appeals for the Seventh Circuit in the present case does not follow or apply the rule thus laid down by this Court and followed by the Circuit Courts of Appeals for the Second and Sixth Circuits. There is diversity of opinion among the Circuit Courts of Appeals as to the meaning of the rule. The question here presented is of importance because under the decision in this case the rules as to apportionment laid down in leading decisions by this Court are being interpreted as meaning that where a plaintiff does not prove that he has suffered actual damage, he may, by declining to attempt an apportionment, recover all of a defendant's profits, even though his patent be merely for an improvement which did not create those profits. This is neither just nor fair nor in accordance with the decisions of this Court.

It is apparent that the United States Circuit Courts of Appeals of the Seventh, Sixth and Second Circuits are not in accord on the interpretation of the decisions of this Court, and that the questions involved are of public importance and interest.

Respectfully submitted,

D. P. Wolhaupter,
Attorney for Petitioner.

F. Allan Minne,
Franklin M. Warden,
Emory L. Groff,
Counsel for Petitioner.

APPENDIX.

IN THE

UNITED STATES CIRCUIT COURT OF APPEALS

FOR THE SEVENTH CIRCUIT.

Nos. 7313, 7446. October Term, 1940, October Session, 1940.

W. H. Miner, Inc., *Plaintiff-Appellee,*

v.

Peerless Equipment Company, *Defendant-Appellant.*

Appeal from the District Court of the United States for the Northern District of Illinois, Eastern Division.

October 31, 1940.

Before Sparks and Major, *Circuit Judges,* and Lindley, *District Judge.*

Lindley, *District Judge.* Defendant appeals from a judgment upon accounting allowing plaintiff damages for infringement previously adjudged in this court in *Peerless Equipment Co.* v. *W. H. Miner, Inc.,* 93 Fed. (2d) 98. Defendant contends that plaintiff did not establish a basis for recovery of damages; that the District Court failed to

charge defendant's profits from sales of infringing devices with the proper proportion of its general selling and administrative expenses; that the court improperly charged defendant with profits upon all gears sold by it in 1936 and 1937; that the court should have charged defendant only with profits due to the presence of Johnson's element in its devices, and, finally, that none of defendant's devices comes within those previously held to infringe.

The matter of accounting was referred to a master in chancery who made a comprehensive report disposing of all controverted issues, which, upon objection, the court modified in certain respects.

We shall discuss only such of the complicated facts involved as are relevant and essential to an understanding of the issues and our disposition thereof.

Defendant seeks a reconsideration of our earlier determination that it has infringed. It insists earnestly that under the proof now in the record, the former adjudication can not stand.

Upon the former appeal, our decision of validity and infringement turned largely upon the convexity disclosed both in plantiff's patent and in the shoes embraced in defendant's devices then before us. We found that Johnson's precise construction, including the prescribed degree of convexity, produced a desirable result not previously achieved and, under all the evidence, amounted to invention over the prior art. Narrow though the difference between O'Connor and Johnson may have appeared to be, both the District Court and this court concluded that the specific convexity prescribed brought success to Johnson where O'Connor failed and that Johnson's concept in this respect was novel and useful and not disclosed by any prior art. We believed that his conception of a slightly convex shoe friction surface, as disclosed in the patent in suit, was the thing that produced the desired successful result in friction draft gears. This convexity, we said, was "essential to the desired result of both parties," and was present in defendant's combination.

We are not persuaded by anything now presented that we should recede from this position. The question of desirability and essentiality of convexity was adjudicated and the evidence now submitted by defendant in its own behalf is persuasive of the propriety of this conclusion. Defendant's tests, made subsequent to the prior adjudication, disclosed that its non-infringing gear was of substantially less capacity than its infringing gears. The evidence taken as a whole points to the soundness of our original conclusion that the convexity prescribed by the patent and utilized by defendant was essential to the desired results.

Defendant insists that the District Court erred in approving the allowance of profits upon all sales of all gears by defendant prior to July 19, 1937, and offered evidence tending to show that not all devices manufactured prior to that date infringed. But the evidence disclosed further that defendant made no attempt to segregate upon its books the respective number of sales of infringing devices and non-infringing devices or the profits arising from the sale of those which infringed or those which did not infringe. Rather, it commingled and mixed in one conglomerate all its sales and all profits from its sales of all gears. Defendant, and it alone, was in position to maintain a record segregating infringing and non-infringing devices and the profits or loss resulting from the sale of each. This it did not do prior to July, 1937. Plaintiff was wholly unable to produce evidence in this respect, for the reason that all gears sold, after use for a short time by railroad purchasers, lost the element infringed, namely: the essential convexity of plaintiff's invention. Indeed, this change in use was essentially incident to the desired results of the patentee. Consequently, plaintiff could not, by examining the devices sold by defendant and in use on railroad gears, ascertain to any degree of certainty the extent of sales of infringing devices. True, this court adjudicated only that the devices produced at the trial infringed. Upon reference to the master the extent or quantum of such infringement was for him and in making such determination it was incumbent upon him to ascertain if

possible, what part of the profit realized by defendant arose from sale of infringing devices and how much, if any, from non-infringing gears. Plaintiff was unable to supply the evidence, that having been within the power of defendant alone, and defendant, having failed to furnish any reasonable or proper basis for division or segregation and having commingled the profits of all devices sold, must account as trustee for all the profits resulting. We deem the correct principle to be that when the defendant commingled profits which it had made as an infringer with those it had made otherwise and there is no standard or criterion by means of which the master can separate them, the infringer must subject itself to the recovery of the whole. It is in law, a trustee and profits having been shown to have reached its hands, if it fails to segregate and protect the trust fund, it must turn over all. It follows that the master and the District Court were correct in holding defendant liable for all profits realized by it during the infringing period ending July 19, 1937.

Defendant seeks to rebut this trust liability by evidence that only a part of the devices then on hand infringed and argues that the same relative proportion of non-infringing devices must have been manufactured previously as the same processes were followed. Unfortunately, however, even though this were true, the commingling of profits and the failure to keep records or supply evidence that would disclose what proportion of profits arose from the infringing devices and what proportion, if any, from non-infringing gears, create an unavoidable liability.

Following the decree of the District Court adjudging defendant guilty of infringement and pending appeal to this court, on July 19, 1937, defendant began inspection of all shoes manufactured. Testing was in charge of one Hauskins, who was experienced in his profession. He testified that from the time he began his inspection until December 2, 1937, he examined every shoe and rejected any and all having a convexity of five-thousandths of an inch or more, using gauges which he produced before the master and

demonstrating before that official the manner in which his work was done. On December 2, he was succeeded by another experienced inspector, Hansen, who checked several thousand shoes then in stock, a greater portion of which it is apparent from the record, Hauskins had previously tested. He, too, demonstrated his method before the master and testified that all shoes with a convexity of five-thousandths of an inch or more were rejected. The master, seeing and hearing the witnesses, observing their methods found that defendant, after July 19, 1937, rejected all gears with shoes having a convexity in excess of five-thousandths of an inch and shipped no such gears. He believed Hauskins was corroborated by the inspection made by Hansen.

The court upon review of the master's report found that Hauskins' testimony was not satisfactory because, (1), of careless methods in keeping records; (2), he testified that he did more work than was humanly possible, and (3), the gauges used were not adapted to dependable determination of the existence or non-existence of infringing convexity. The court found further than Hansen in no way corroborated Hauskins; that his inspection, too, was inefficient for the purposes intended and that defendant had continued to infringe after July 19, until December 31, 1937, and entered a decree for all profits from all gears sold during that period.

Obviously whether defendant infringed after the entry of the decree which we affirmed on appeal was not before us. On that review there was and could have been no adjudication as to that. It was the obligation of the master to determine whether the acts of defendant subsequent to the entry of the decree amounted to infringement. Irrespective of the fact that the same process of manufacture may have been followed and the same dies used as previously and the presumption that the adjudicated infringement continued, it does not follow that the evidence supports a finding of continued infringement. There was no evidence of sale or use of any infringing shoe after the entry of the decree. It is clear from the record that not all shoes produced by de-

fendant prior to the entry of the decree infringed and we have held the defendant liable because of its commingling a trust estate arising from infringement with other funds received from non-infringing devices, making it impossible to ascertain how much of the sales profit was trust funds. But it does not follow that defendant is in the same situation subsequent to July 19, 1937, for upon that date defendant began inspection and after that, according to the testimony of Hansen and Hauskins, no infringing shoe was sold or shipped by defendant. The master saw the method of inspection demonstrated. He saw used the gauges employed; he observed the inspectors upon the witness stand and had the best opportunity of any of us to judge of their credibility under all the facts and circumstances appearing before him. His finding based upon and supported by credible evidence should not be disturbed. It may be that Hauskins' records were not perfect. It may be that his note book on its face indicated more work than could reasonably have been done on certain days, but he testified that his memoranda indicated periods rather than days. We do not believe that the District Court was justified in its conclusion that the master erred in his finding in this respect. The record rather is convincing that upon the adjudication that it was infringing, defendant took reasonable steps to keep records which it had not kept before and employed effective means to prevent use of the infringing element. In the absence of any positive or convincing evidence of sales of infringing devices subsequent to July 19, 1937, we conclude that the District Court erred in overruling the master's finding in this respect.

Defendant insists that it was error to allow to plaintiff as damages all its profits arising from sale of infringing devices and asserts that the court should have apportioned to plaintiff only such part of the profits as resulted from including the essential improvement element of Johnson in defendant's gear. The Supreme Court has held in *Dowagiac Mfg. Co.* v. *Minnesota Moline Plow Co.*, 235 U. S. 641 that in so far as profits of infringing sales are attributable to

the patented improvement, they belong to plaintiff and in so far as they spring from other parts or features, they belong to defendant, and that if the profits necessarily are commingled it is essential that they be separated or apportioned between what is covered by the patent and what is not covered by it, if possible. The court further held plaintiff was required to take the initiative in presenting evidence looking toward apportionment. However, in *Westinghouse* v. *Wagner Electric & Mfg. Co.*, 225 U. S. 604, the court had occasion to consider substantially the specific question here presented using this language: "Where the infringer has sold or used a patented article, the plaintiff is entitled to recover all the profits. Where a patent, though using old elements, gives the entire value to the combination, the plaintiff is entitled to recover all the profits. *Hurlbut* v. *Schillinger*, 130 U. S. 472, 32 L. Ed. 1016, 9 Sup. Ct. Rep. 584. Where profits are made by the use of an article patented as an entirety, the infringer is liable for all the profits 'unless he can show—and the burden is on him to show—that a portion of them is the result of some other thing used by him.' *Elizabeth* v. *American Nicholson Pav. Co.*, 97 U. S. 127, 24 L. Ed. 1002. But there are many cases in which the plaintiff's patent is only a part of the machine and creates only a part of the profits. His invention may have been used in combination with valuable improvements made, or other patents appropriated by the infringer, and each may have jointly, but unequally, contributed to the profits. In such case, if plaintiff's patent only created a part of the profits, he is only entitled to recover that part of the net gains. He must therefore 'give evidence tending to separate or apportion the defendant's profits and the patentee's damages between the patented feature and the unpatented features, and such evidence must be reliable and tangible, and not conjectural or speculative; or he must show, by equally reliable and satisfactory evidence, that the profits and damages are to be calculated on the whole machine, for the reason that the entire value of the whole machine, as a marketable article, is properly and legally attributable to the

patented feature.' *Garretson* v. *Clark*, 111 U. S. 121, 28 L. Ed. 371, 4 Sup. Ct. Rep. 291."

The court added: "But when a case of confusion does appear,—when it is impossible to make a mathematical or approximate apportionment,—then, from the very necessity of the case, one party or the other must secure the entire fund. It must be kept by the infringer or it must be awarded by law to the patentee. On established principles of equity, and on the plainest principles of justice, the guilty trustee cannot take advantage of his own wrong. The fact that he may lose something of his own is a misfortune which he has brought upon himself; and, if, as argued, the fund may have been made by the use of other patents also, for which he may be liable in another case, it is again a misfortune which he has brought upon himself and an instance of a double wrong causing double liability. He cannot appeal to a court of conscience to cast the loss upon an innocent patentee and by judicial decree repeal the provision of Rev. Stat. sec. 4921, U. S. Compl. Stat. 1901, p. 3395, which declares that, in case of infringement, the complainant shall be entitled to recover the 'profits to be accounted for by the defendant.' "

In the present case the essential convexity of Johnson's device was utilized in gears produced by defendant. All other elements of defendant's product were old. The inclusion of convexity was not the addition of an attachment but embraced in manufacture an essential element of Johnson's successful invention. This situation is such that it is impossible to make a mathematical or even an approximate apportionment of the resulting profits. Consequently under established principles of equity and the plainest principles of justice, as the court said in the *Westinghouse case*, the infringer cannot take advantage of his own wrong. It being impractical or impossible for plaintiff to apportion the profits between what is new and what is old, defendant, an infringer, must either make the apportionment or yield up all profits, unless such a decree would be shockingly un-

just, in which event the plaintiff would be relegated to a royalty. *Stearns-Roger Mfg. Co.* v. *Ruth,* 87 Fed. (2d) 35, 39; *Farmers' Handy Wagon Co.* v. *Beaver Silo and Box Mfg. Co.,* 259 Fed. 270, 271; *Clark* v. *Johnson,* 199 Fed. 116, 121-122.

Defendant complains that both the master and the District Court improperly allocated to branches of defendant's business other than that relating to gears an unreasonable and exorbitant amount of its overhead expense. Defendant was engaged in the business of selling draft gears, batteries and journal boxes. Each of the latter was non-infringing. From income arising from the sale of gears, the District Court deducted all expense allocated on defendant's books of account to gears, including all sums paid for manufacture, freight, allowances, royalties and commissions. From the income remaining, defendant claimed additional deduction for a proportionate amount of the general overhead expenses of the business, including executive and administrative salaries, traveling and office expenses, insurance, rent, taxes and interest. Defendant kept no record in which this general overhead was allocated to the respective portions of its business. Consequently it became incumbent upon the master and, upon objection to his report, upon the court to determine what was a reasonable and proper apportionment of the general overhead expense to the infringing and non-infringing branches of the business. The parties agreed that in 1936, 61 per cent, and in 1937, 65 per cent of defendant's net income before overhead deduction represented the income from gear earnings and the master, in view of all the circumstances, concluded that this was a fair and equitable basis for the division of overhead likewise and applied these percentages to all items of general expense which he approved as deductible, except interest on capital invested, which he allocated to gears, and federal income tax, which, because of a stipulation of the parties, was allocated on a different basis. The District Court approved this basis and method of allocation of overhead ex-

cept to hold that before any proper division could be made, the true selling expense of the non-infringing branches of defendant's business should be excluded, for the reason that while the commissions to salesmen who sold gears were shown on defendant's books and charged to gears, similar compensation to salesmen of non-infringing branches, by way of salary, was included in the general overhead. In other words, the gear salesmen's commissions, rent and expenses had been deducted from the gross income from gears whereas the compensation of the representatives of the non-infringing branches was included in the mingled overhead items. Consequently, and, we think, properly, the court allocated the true selling expense of the non-infringing branches to them. Unfortunately the records did not disclose the amount thereof, but the court found that at least 30 per cent of the general overhead was in fact true selling expense of the non-infringing business. Therefore, before allocating the general overhead between the different branches, the court ordered deducted therefrom, 30 per cent of the overhead. Of this we approve.

Defendant insists that the court should have followed the testimony of its witness Frystak who testified at considerable length as to the duties performed by the officers and employees and to his opinion of what would be a fair allocation. The master, however, commented that his testimony was largely hearsay and, therefore, inadmissible; that it was evident he had no personal knowledge of the activities of the various employees; that his allocations were based on what employees had told him and upon facts of which he could have had no personal knowledge. The record supports the master's conclusion in this respect and the decree of the court approving same. Furthermore, the master rightfully suggested that the failure of available officers who had personal knowledge of the facts to testify raised an inference unfavorable to defendant's attempted allocation.

Defendant controverts also the correctness of the District Court's allowance of interest upon invested capital.

Defendant's net worth was stipulated by the parties at $29,181.79 in 1936 and $35,257.35 in 1937. The District Court held that defendant was entitled to interest on this net worth only, overruling the master who included in the amount moneys borrowed by defendant from Poor & Company, who owned all of the stock of defendant and who received at the end of each of the years, all of the net profits and then loaned them to defendant for use in the business. We see no reasonable basis for holding that these advancements should be included as invested capital. The net worth of the company was the remainder after deduction of liabilities from assets. If the profits had been left in the business, the assets would thereby have been increased but having been distributed to stockholders, the invested capital was thereby reduced by the amount thus distributed and the fact that the money was thereafter borrowed did not add anything to invested capital.

The court eliminated from deductions all bonuses paid by defendant in the year 1936, one-half of which had been recommended for allowance by the master. Defendant insisits that these bonuses should be deducted in determining defendant's net profits.

The bonuses were paid for 1936 pursuant to contracts made therefor. In January of that year, the corporation adopted a resolution allowing to the president and vice-president five per cent of the net profits at the end of the year, after deduction of all income and other taxes. A contract was also made with a special agent of the company on January 2, 1936, to pay him for compensation for the year 1936 ten per cent of the net income of the corporation, after deduction of income and other taxes. At the end of the year the bonuses were computed and paid. None of the recipients was a stockholder of the corporation. Defendant insists that having been made pursuant to contracts creating the liability prior to the rendering of the services, the payments were purely compensation and not a division of profits. With this contention we agree. Where bonuses are outright gifts which do not have in them the element

of compensation they are not deductible in computing income, but if such payments are made in good faith, in pursuance of contracts entered into, as additional compensation for services actually rendered by the employee, pursuant to such contracts, they should be deducted. Obviously they must not exceed a reasonable compensation and any amount in excess of a reasonable salary is not deductible. It matters not at all that the payments took the form of a share of net income. Regardless of the method of determination, as the company had contracted to pay bonuses as compensation and the services had actually been rendered in reliance upon contracts to pay therefor and the amounts were not excessive, the payments were allowable as deductions. In this case there was no evidence that the amounts were unreasonable. We know of no reason in law why the payments should not be considered allowable expense and stamped as deductible. We believe that cases cited will upon analysis accord with our views.

We conclude that the method of accounting as approved by the District Court and the conclusions thereto are correct except in the particulars indicated in this opinion.

The judgment of the District Court in No. 7313 will be REVERSED in so far as inconsistent with the announcements herein contained with directions to make the accounting in accord with those expressions; in all other respects, it will be AFFIRMED.

In No. 7446, the order of the District Court denying defendant's motion to vacate the decree of May 25, 1937 is AFFIRMED.

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JAN 27 1941
CHARLES ELMORE CROPLEY
CLERK

IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, A. D. 1940.

No. 669.

PEERLESS EQUIPMENT COMPANY, *Petitioner.*

vs.

W. H. MINER, INC., *Respondent.*

On Writ of Certiorari to the United States Circuit Court of Appeals for the Seventh Circuit.

PETITIONER'S REPLY TO RESPONDENT'S BRIEF.

D. P. WOLHAUPTER,
Attorney for Petitioner.

F. ALLAN MINNE,
FRANKLIN M. WARDEN,
EMORY L. GROFF,
Counsel for Petitioner.

Eastman Bros., Law Printers, 542 S. Dearborn St., Chicago

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PETITIONER'S REPLY TO RESPONDENT'S BRIEF.

On page 2 of its brief respondent charges that we have asserted the facts of the case to be contrary to what both courts below found them to be, in order to show that there is conflict between the result reached in this case and the results reached in other cases.

The important facts of this case, on the questions of law here presented, are stated in the opinion of the Circuit Court of Appeals, as follows:

> "Except for the convexity all other elements of defendants' product were old" (R. 574).
>
> "It is clear from the record that not all shoes produced by defendant prior to the entry of the decree infringed . . ." (R. 522).

The only difference between petitioner's gears was the presence or absence of the slight convexity of the patent in suit on some of the shoes of the gear. The Court of Appeals found as a fact that starting with July, 1937,* defendant accurately measured the shoes of its gears to be sure that none would be sold thereafter having any convexity (R. 571). That some of the shoes of petitioner's gears that were sold prior to that time had some convexity was due to variations in manufacture. All shoes were manufactured in the same way, *viz.*, by drop forging which is a rough operation. The Court of Appeals found that all of the petitioner's gears were made by the same processes (R. 570).

Petitioner's gears were sold to the same customers both before and after July of 1937.

Respondent contends on page 3 of its brief that petitioner's non-infringing gears are not so good as its gears which had the convexity. We submit that the railroads who buy the gears are the only competent judges as to the value of gears and that the fact that they have continued to buy petitioner's gears without any convexity (R. 170) completely answers respondent's contention. However, if we concede, for sake of argument, that what respondent says is true, the fact

* On page 3, respondent incorrectly states that "petitioner ceased to infringe in July, 1938."

remains that petitioner's gears without the convexity sold for as much as its gears with the convexity, so it was not the convexity that earned all the profits petitioner made in its gear business.

On this state of facts the Circuit Court of Appeals concluded as a matter of law that it was impossible for respondent to make an apportionment as between that part of petitioner's profits which was earned by the basic elements of the gear, listed near the bottom of page 3 of respondent's reply, which were all old and which formed a complete gear and that part of the profits which was attributable to the presence of a convexity. The Circuit Court of Appeals also concluded as a matter of law that petitioner was relieved from the burden of proof of making an apportionment.

This is not the law that has been applied to such a state of facts by the courts of other circuits, and it is not the law as stated by this Court. In *Egry Register Co.* v. *Standard Register Co.*, 23 F. (2d) 438, 441, the Circuit Court of Appeals for the Sixth Circuit said:

> ". . . Its (defendant's) modified device did not infringe, but was sold at the same price, and the volume of sales did not drop; . . . this result must, at least, challenge critical study of any theory of profit recovery which makes it possible.
>
> "An apportionment being necessary, the burden is upon the plaintiff to make it.
>
> . . . . . .
>
> "We do not understand the Westinghouse Case as holding that, in every case where the profits cannot be apportioned, defendant must pay them all. What is there said refers, we think, to a case where apportionment is impossible because the device or structure sold by defendant is the entire patented thing, nothing more and nothing less. That seems to have been true with the case and converter there claimed."

In *Alliance Securities Co.* v. *De Vilbiss Mfg. Co.*, 76 F. (2d) 503, 504, the Circuit Court of Appeals for the Sixth Circuit stated:

> "When a patented improvement does not give the entire value to a device, the profits recoverable for infringement are measurable by the difference between what the infringer received from sales of the improved device and what he might reasonably have expected to receive from the sales of that part of it which he had the right to sell. *McCreary* v. *Pennsylvania Canal Co.*, 141 U. S. 459, 465, 12 S. Ct. 40, 35 L. Ed. 817. In such case the burden is on the party seeking a recovery of profits to show that they were made by the infringer and are apportionable between the device with and without the improvement. *Westinghouse Electric & Mfg. Co.* v. *Wagner Electric & Mfg. Co.*, 225 U. S. 604, 32 S. Ct. 691, 56 L. Ed. 1222, 41 L. R. A. (N. S.) 653."

It is apparent from these quotations that the Circuit Court of Appeals for the Sixth Circuit holds a different view as to the question of law presented by the petition in this case, and as to the correct interpretation of *Westinghouse* v. *Wagner* from that held by the Circuit Court of Appeals for the Seventh Circuit.

In *Metallic Rubber Co.* v. *Hartford Rubber Co.*, 275 F. 315, the Circuit Court of Appeals for the Second Circuit, citing *Westinghouse* v. *Wagner* as an authority in reversing the District Court which awarded all of an infringer's profits to the plaintiff, said:

> "The difficulty is that the court failed to distinguish between the cases in which, but for the patented improvement, the device would have had no sale at all, and for the wrongful use of which the infringer is made to give up all of his profits, and the cases in which the patented device could be taken away without affecting the sale of the

article for the purpose for which it had been previously used, and for the wrongful use of which device the defendant can be called upon to give up only the profits resulting from the use of the addition.

"The authorities hold that any profit gained by a defendant from the use of what was old prior to the date of the patent infringed cannot constitute any part of the compensation to be awarded to the patentee. In the instant case the market value of the addition made by defendant to the old tire is easy of ascertainment. Both kinds of tires were manufactured and sold by defendant side by side. The concurrent operations thus furnish a basis of ascertainment."

Petitioner's gears with and without the convexity were sold side by side and, subsequent to July, 1937, all were sold without the convexity. Thus the profits, if any, attributable to the convexity were easy of ascertainment.

From this last quotation and from *American Can Co.* v. *Goldee Manufacturing Company,* 31 F. (2d) 492; affirmed 31 F. (2d) 494, it is to be seen that the Circuit Court of Appeals for the Second Circuit also disagrees with the Circuit Court of Appeals for the Seventh Circuit as to the law applicable to a state of facts such as we have in the present case.

In *Dowagiac* v. *Minnesota,* 235 U. S. 641, this Court said with respect to the burden of proof in a case where the patented invention created only a part of a defendant's profits:

"But as the drills were sold in completed and operative form, the profits resulting from the several parts were necessarily commingled. It was essential, therefore, that they be separated or apportioned between what was covered by the patent and what was not covered by it; for, as was said

in *Westinghouse Electric & Mfg. Co.* v. *Wagner Electric & Mfg. Co., supra* (p. 615): 'In such case, if plaintiff's patent only created a part of the profits, he is only entitled to recover that part of the net gains.' In the nature of things the profits pertaining to the patented improvements had to be ascertained before they could be recovered by the plaintiff, and therefore it was required to take the initiative in presenting evidence looking to an apportionment."

In *Dowagiac* v. *Minnesota* and in *Sheldon et al.* v. *Metro-Goldwyn Pictures Corp. et al.*, 309 U. S. 390, this Court said that apportionment was not an insurmountable barrier but that it could be established by expert testimony. This Court emphatically stated in *Black* v. *Thorne*, 111 U. S. 122, and *Sheldon et al.* v. *Metro-Goldwyn Pictures Corp. et al.*, that a defendant should not be required to pay over to a plaintiff any larger part of its profits than the patented invention actually contributed toward those profits.

Conclusion.

The Circuit Court of Appeals for the Seventh Circuit has decided important questions of federal law in conflict with decisions of other Circuit Courts of Appeal on similar states of fact and in apparent conflict with the decisions of this Court.

Respectfully submitted,

D. P. WOLHAUPTER,
Attorney for Petitioner.

F. ALLAN MINNE,
FRANKLIN M. WARDEN,
EMORY L. GROFF,
Counsel for Petitioner.

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CHARLES ELMORE CROPLEY
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IN THE

Supreme Court of the United States

OCTOBER TERM, A. D. 1940.

No. 669

PEERLESS EQUIPMENT COMPANY,
Petitioner,

vs.

W. H. MINER, INC.,
Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

BRIEF OF RESPONDENT IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

GEORGE I. HAIGHT,
Attorney for Respondent.

THE BUNTHORP-WARREN PRINTING COMPANY, 810 WEST JACKSON, CHICAGO

IN THE

Supreme Court of the United States

OCTOBER TERM, A. D. 1940.

No. 669

PEERLESS EQUIPMENT COMPANY,
Petitioner,

vs.

W. H. MINER, INC.,
Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

BRIEF OF RESPONDENT IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

This is an ordinary patent accounting case. Although eleven reasons are urged for the grant of a writ of certiorari (Pet., pp. 8-10), the sole question presented is whether as a matter of law the decision of the Circuit Court of Appeals for the Seventh Circuit, that respondent is entitled to all of petitioner's profits, is in conflict with decisions of this Court and decisions of other Circuit Courts of Appeals. On this issue the Circuit Court of Appeals for the Seventh Circuit aptly referred to two leading decisions by this Court, *Dowagiac Mfg. Co.* v. *Minnesota-Moline Plow Co.*, 245 U. S. 641, and *Westinghouse* v. *Wagner Electric & Mfg. Co.*, 225 U. S. 604. No criticism is made or can properly be made of the interpretation and use of these decisions

by the Circuit Court of Appeals. The portion of the opinion in which that Court discusses the issue to which the petition for certiorari relates is found in the record at pages 572-574. The heart of the decision of the Circuit Court of Appeals is as follows (R. 574)*:

> "* * * This situation is such that it is impossible to make a mathematical or even an approximate apportionment of the resulting profits. Consequently under established principles of equity and the plainest principles of justice, as the court said in the Westinghouse case, the infringer cannot take advantage of his own wrong. It being impractical or impossible for plaintiff to apportion the profits between what is new and what is old, defendant, an infringer, must either make the apportionment or yield up all profits, unless such a decree would be shockingly unjust, in which event the plaintiff would be relegated to a royalty."

The petition does not challenge the statement of law which the Circuit Court of Appeals thus applied. Petitioner's only discussion of it is the brief statement at page 13 of the petition to the effect that the Circuit Court of Appeals decided the question of fact (as to whether an apportionment was possible) "arbitrarily." Having thus eliminated the legal basis for the decision *by asserting that the facts of the case are contrary to what both courts below found them to be* (R. 526, 574), petitioner purports to find conflict between the result reached and the result reached in other cases. The statements in the petition and brief in support thereof suggesting a dispute of *law* are premised only upon petitioner's assertion of *facts* which were rejected by the courts below.

The decison of *law* by the Circuit Court of Appeals was that where separation is impossible, the tort feasor and not the victim should suffer. This is sound law and sound

* The opinion of the Circuit Court of Appeals is as yet unreported. It appears in the record at pages 568 to 578. The opinion of the Circuit Court of Appeals on appeal from the award of an injunction and an accounting is reported in 93 F. (2) 98 (Cert. den. 303 U. S. 641). The record on the first appeal is referred to as "Physical Exhibit R. Case 6304 p. ....." The record on this appeal is referred to as R. .....

public policy whether the misappropriated property be grain, patent rights, or other property.

Among the many cases recognizing the applicability of the "confusion rule" to patent cases are *Westinghouse* v. *Wagner Electric & Mfg. Co.*, 225 U. S. 604, 620, and *Hamilton Shoe Co.* v. *Wolf Brothers*, 240 U. S. 251, 261.

In its discussion of the facts of the case petitioner asserts (p. 14) that railroads have purchased non-infringing gears from it, that petitioner ceased to infringe in July, 1938, but lost no customers thereby, and that the selling price of its non-infringing gears increased over that charged for infringing gears. Upon the basis of these alleged facts, petitioner disagreed with both courts below, and argued that apportionment was possible and that the "apportionment" should be entirely to non-infringing features (See Petition, p. 14). The petition fails to point out, however, that the sales of petitioner's non-infringing gears were made under the representations that they were as good as the infringing gears (R. 171), and that prices were raised when prices generally rose (R. 170). The petition also fails to point out that petitioner's non-infringing gears were in fact distinctly inferior to its infringing ones as the District Court found (R. 521) and as pointed out by the Circuit Court of Appeals (R. 569). Beginning in 1938 the petitioner sold gears in which a false laboratory capacity was produced by a "breaking-in" process. This was expensive and detrimental to the gears (R. 284, 285, 309, 323, 326-327). Draft gears of the type here involved consist broadly of a friction shell, a pluralty of friction shoes within the shell, a wedge which bears against the shoes, and a spring resistance. A pushing or pulling force exerted on the coupler of the car is transmitted to the wedge member of the gear. As the wedge is thus forced into the friction shell, it bears against the shoes forcing them outwardly against the inner walls of the friction shell. Inward movement of the shoes is resisted by the spring, and friction

develops between the shoes and the shell. This friction to the extent of its capacity absorbs the energy of the impact and cushions the blow. Because of the tremendous pressure involved it is essential to satisfactory operation to have accurate alignment of the parts, not only to prevent sticking of the gear, but also to secure capacity, endurance, and uniformity. In commercial production variations, particularly in the angularity of the interior surfaces of the friction shell, make accurate alignment difficult to secure.

Prior to the patent in suit alignment of parts in devices of the type here involved was secured by using antifriction rollers between each of the shoes and the wedge of the device. The rocking of the shoes on the rollers permitted alignment of the parts to compensate for commercial tolerances in the angularity of the parts. With increased demands upon the gears due to longer trains and faster service, the rollers became overloaded and frequently broke (Phys. Ex., R. Case 6304, p. 18). It was known before the patent in suit that the parts could be individually machined and "tailor made" gears produced, or that the parts could be assembled and some "alignment" secured by distortion or wear of the parts. However, machining was so expensive as to be a commercial impossibility. Securing alignment of parts by "breaking in" was unsatisfactory and was detrimental to the gears (Phys. Ex., R. Case 6304, p. 20). The patentee, by providing a slightly curved surface on the shoes or wedge, secured by rocking action an automatic accomodation of the parts to meet the particular variations in angularity which might occur within the limits of commercial tolerances in each specific gear. As the gear is actuated in testing before shipment or in service, the curved surface flattens into a straight surface of the required angularity. The patent gave the answer to a real problem and went into immediate use. At the time of the original hearing in 1937, over 1,000,000 devices employing it had been sold by respondent (Phys. Ex., R. Case 6304,

p. 23). The Circuit Court of Appeals very properly pointed out that the patent in suit was "essential to the desired results of both parties" and "is the thing that produced the successful result" in respondent's gears (93 Fed. (2d) 105). The petition belittles the patent in suit as merely "the addition of a single manufacturing detail" (Pet., p. 2). When, in following the plainly sound determination by the District Court the Circuit Court of Appeals disagreed with petitioner, it was not deciding a question of law in conflict with the decision of this or any other court.

Petitioner seeks by assertions of *fact* to bring the case at bar within the general rule that the plaintiff has the duty of apportionment. The decisions of this Court and of Circuit Courts of Appeals with which the decision herein is alleged to conflict (Pet., pp. 8, 12, 14-15) are all cases in which upon the facts involved the general rule was followed and applied. In the instant case, however, on the *facts,* the Master, the District Court, and the Circuit Court of Appeals all agreed that the exception should be followed. In *Hamilton Shoe Co.* v. *Wolf Bros.,* 240 U. S. 251, 261, this Court said:

> "* * * But, as pointed out in the *Westinghouse Case* (p. 618), there is a recognized exception where the plaintiff carries the burden of proof to the extent of showing the entire profits, but is unable to apportion them, either because of the action of the wrongdoer in confusing his own gains with those which belong to plaintiff, or because of the inherent impossibility of making an approximate apportionment. There, 'on established principles of equity, and on the plainest principles of justice, the guilty trustee cannot take advantage of his own wrong.'"

The charge in the petition that the Circuit Court of Appeals "decided an important question of law in a manner which is believed to be in direct conflict with applicable decisions of this Court" and "decided important questions of Federal law, in a manner against public interest, and the

effect of which is therefore of great public importance and interest'' (Pet., pp. 8, 9) is unfounded. The Circuit Court of Appeals, having in pursuance of the concordant findings of the Master and the District Court determined that apportionment is impossible on the facts of this case, was impelled by the decisions of this Court in the *Westinghouse Case* and the *Hamilton Shoe Case* to award all profits to respondent. Petitioner's dispute is not with the law applied; the law has been settled by authoritative decisions of this Court and has not been and is not challenged. Petitioner challenges the finding of fact that apportionment is impossible. As to this issue since the Master and the District Court held against petitioner and the Circuit Court of Appeals soundly followed, respondent deems it unnecessary to argue the point. The dispute that petitioner seeks to enter upon is as to facts, not as to law. While the case is important to the litigants, it presents nothing of such novelty of disagreement as to make it "of great public importance and interest."

Conclusion.

For the reasons that this case presents no conflict of decision and that the unanimous decisions of the Master, the District Court, and the Circuit Court of Appeals that no apportionment was required on the facts of this case are well grounded, it is thought that the application for certiorari should be denied.

Respectfully submitted,

George I. Haight,
Attorney for the Respondent.